

VZCZCXRO4614
PP RUEHAG RUEHBI RUEHCI RUEHLH RUEHPW RUEHROV
DE RUEHAH #1240/01 2611007
ZNY CCCCC ZZH
P 171007Z SEP 08
FM AMEMBASSY ASHGABAT
TO RUEHC/SECSTATE WASHDC PRIORITY 1569
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUCNCIS/CIS COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHAK/AMEMBASSY ANKARA 4312
RUEHBJ/AMEMBASSY BEIJING 2124
RUEHKO/AMEMBASSY TOKYO 1989
RUEHIT/AMCONSUL ISTANBUL 2560
RHMFISS/CDR USCENTCOM MACDILL AFB FL
RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEKJCS/JOINT STAFF WASHDC
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEHVEN/USMISSION USOSCE 2900

C O N F I D E N T I A L SECTION 01 OF 05 ASHGABAT 001240

SIPDIS

STATE FOR SCA/CEN, EUR/CARC, EUR/RUS, EEB
PLEASE PASS TO USTDA DAN STEIN
ENERGY FOR EKIMOFF/THOMPSON
COMMERCE FOR HUEPER

E.O. 12958: DECL: 09/16/2018

TAGS: [PBTS](#) [PGOV](#) [PHUM](#) [PREL](#) [ECON](#) [EPET](#) [TX](#)

SUBJECT: TURKMENISTAN: BERDIMUHAMEDOV RESTATES THE FAMILIAR

REF: ASHGABAT 1157

Classified By: Charge Sylvia Reed Curran for reasons 1.4 (b) and (d).

11. (C) SUMMARY: During a meeting September 8 which lasted more than 2 1/2 hours, President Gurbanguly Berdimuhamedov told Special Envoy for European Energy C. Boyden Gray and U.S. Coordinator for Eurasian Energy Affairs Steve Mann that an audit by the British company Gaffney-Kline, due to be released at the end of September, would reveal more than 24.6 trillion cubic meters of reserves. He reaffirmed a preference for TurkmenGaz and TurkmenNeft to develop hydrocarbons, rather than foreign companies. Berdimuhamedov vented his unhappiness at Azeri coast guard actions and claimed the Azeris had not responded to a forthcoming Turkmen proposal on delimitation. He also urged a UN convention on pipeline security. Gray and Mann pushed back on the idea of restricting foreign companies to being service providers or processing gas, reminding Berdimuhamedov that Western companies have the expertise and the equipment to extract sub-salt gas, while Turkmenistan does not have the technological capability yet to develop the onshore. END SUMMARY.

SUPPORT FOR STRONG U.S.-TURKMENISTAN RELATIONS

12. (C) Special Envoy for European Energy C. Boyden Gray and U.S. Coordinator for Eurasian Energy Affairs Steve Mann met September 8 with President Gurbanguly Berdimuhamedov to discuss Caspian energy issues. After the president warmly greeted his guests, Special Envoy Gray conveyed the greetings of President Bush and said the United States wants to support Turkmenistan's development plans as much as is possible. He said the United States supports Berdimuhamedov's plans to engage with Azerbaijan, Kazakhstan, and the West. He raised the two letters Chevron had received from Turkmenistan officials stating that negotiations can commence and expressed the hope that negotiations would start as soon as possible.

13. (C) Berdimuhamedov said that he was thankful to the

leadership of the United States and noted the meetings he has had with President Bush and the Secretary. He said that cooperation between the United States and Turkmenistan had become even more active over the past 1 1/2 years. The many delegations that have come in that time have included those dealing with transportation, military issues, social issues, etc. Turkmenistan is ready to continue the dialogue with the United States.

GAS RESERVES HUGE

¶4. (C) Berdimuhamedov noted that Turkmenistan had invited the British company Gaffney-Kline to do an audit, because there had been an inkling that gas reserves amounted to 24.6 Tcm. Per the president, preliminary estimates show that this number will be exceeded. Gaffney-Kline will complete its audit by the end of September and will show the world the extent of the country's resources.

NATIONAL HYDROCARBON STRATEGY

¶5. (C) Berdimuhamedov detailed the restructuring of the hydrocarbon sector. He said the recently adopted Law of Hydrocarbon Resources reviewed the role and structure of the State Agency for Management and Use of Hydrocarbons. Representatives of the State Agency will be based in Europe, Asia, Russia, and China, perhaps also the United States. There is a strategic plan to develop the state's oil and gas complex and increase production of oil and gas by 2030 to 250 bcm of gas and 110 million tons of oil/year. Berdimuhamedov

ASHGABAT 00001240 002 OF 005

said that Turkmenistan prefers to strengthen its national capacities, which means promoting TurkmenGaz and TurkmenNeft.

He said that day he had given the order for foreign companies to not do exploration. National companies would do it on their own. He said Turkmenistan will also work with Chevron, ExxonMobil and other majors. Turkmenistan wants to apply the experience of the largest international companies and wants to purchase equipment of different types. There are still unexplored blocks in the Caspian. They can be involved in processing and as service providers. Berdimuhamedov noted that the Turkmen had had some bitter experiences, e.g. with Bidas, which was permitted to work onshore, therefore the country needs to rely on its national capacities.

¶6. (C) Berdimuhamedov said that Turkmenistan is using a formula to negotiate price with all its partners. The average price for 1000cm³ of gas will be no less than \$350/mcm. If others do not want to buy at that price, the gas will be processed in-country. He denied that Turkmenistan is under Russian influence for gas sales. Previously, there was only the Central Asia Center pipeline and gas went north. Now, Turkmenistan sells gas to Russia and Iran, and from next year, to China. If the Russians do not want to pay the price, Turkmenistan will cut the gas off.

Berdimuhamedov asserted that Turkmenistan is an equal country and dictates its own prices. Turkmenistan has an open door policy, supports diversification of hydrocarbon exports, and will sell gas on the border until 2030. He said, from his meetings in Brussels, it was clear that Europe will need 3-4 times more gas than it uses at the present time, and this is why Turkmenistan supports diversification of hydrocarbon exports.

DELIMITATION

¶7. (C) Turning to delimitation, Berdimuhamedov said this question has not been resolved. He said that after 10-12 years of frozen relations, he realized that Turkmenistan and Azerbaijan needed to improve their relations. Before Berdimuhamedov's visit to Baku in May, FM Meredov suggested to the Azeris that there be a geologic and seismic survey of Serdar. The Azeris supported this idea. A Canadian company did the survey and found reserves of 32 bcm of gas and 86

tons of oil. Berdimuhamedov railed against the incident with the Azeri gunboats that took place just before his trip to Baku and noted how it had harmed efforts toward improving relations. He noted it involved a civilian ship with a Turkmen flag, that had been working in Block III for three months, with the knowledge of the Azeris. Berdimuhamedov said he felt shame for his country and Azerbaijan, because of the incident. Despite the incident, he went to Baku anyway. He would have canceled if the visit had not already been scheduled, and anyway, he went to establish good relations and not to discuss disputes. In addition, he complained that the Azeris had not responded to the Turkmen proposal for a 50/50 split on delimitation, giving Azerbaijan Osman and Omar and Turkmenistan keeping Serdar/Kyapaz. This would solve the problem. Turkmenistan has already compromised. He showed Ambassadors Gray and Mann the proposal by tracing the line on a large map on the wall of his office. A pipeline between Serdar/Kyapaz and Azerbaijan would only be 60 km long. He complained that even though there is no delimitation, BP is working on Osman and Omar. The President returned to the border theme throughout the meeting, at one point complaining that he had been woken up at 4:30 am and told of the gunboat actions, and he told his staff to do nothing in response.

18. (C) Berdimuhamedov said that maybe the issue could be solved after Azerbaijan's elections in October. He noted that Aliyev's father used to say that Serdar/Kyapaz belonged

ASHGABAT 00001240 003 OF 005

to Azerbaijan. Gray offered his lawyerly view that the issue was eminently solvable and one attractive option would be private arbitration under time limits and under the direction of a highly respected international jurist. Berdimuhamedov showed interest but offered no commitment.

PIPELINE SECURITY

19. (C) Berdimuhamedov said without solving the issues of security and delimitation, you cannot discuss a trans-Caspian pipeline. He discussed the Turkmen proposal for a UN convention on pipeline security. He said they have shared a text with the UN. Meredov will submit the initiative when he goes to UNGA at the end of September. In order for TAPI or a trans-Caspian pipeline to be built, pipeline security is necessary. He also pointed to BTC and the conflict in Georgia as examples of why a UN convention on pipeline security was necessary. He said he had discussed this idea with heads of state, and they are supportive. A trans-Caspian pipeline could have a planned capacity of 30 bcm with 10 bcm each coming from Azerbaijan, Kazakhstan, and Turkmenistan. Turkmenistan is ready with its 10 bcm and the potential from Serdar could supply it. Referring to the problem of ENI in Kazakhstan and BP in Russia, Berdimuhamedov said partner states should give security guarantees, because companies are not stable partners.

10. (C) Berdimuhamedov said he is not against cooperation, but Turkmenistan is in a dangerous neighborhood. He noted that Turkmenistan provided aid to Afghanistan during the last extremely cold winter. Rather than give aid to South Ossetia where it would end up with criminals, it would be better to give assistance to Afghanistan.

THE IMPORTANCE OF INTERNATIONAL COOPERATION

11. (C) Both Ambassadors Mann and Gray stressed the importance of international cooperation and of working with Western majors for oil and gas exploration, including onshore. They have the expertise and the equipment to extract sub-salt gas. Turkmenistan does not have the technological capability yet to develop the onshore, and they stressed that no Turkmen oilman would stand in front of the President and say he was incapable of any technical task. Mann underscored that everything the Turkmen leader wants to achieve in energy development depends on outside investment and unbiased advice. Majors do not want to be service

providers. They want to be partners. And working through the majors is the only way for Turkmenistan to reach its production goals. Mann said international cooperation is the only model that really meets Turkmenistan's needs.

¶12. (C) Mann pointed to the example of Kazakhstan and Tenghiz development. There was no way that Kazakhstan could do it alone and had tried since the 1980s. Therefore, Kazakhstan decided to pursue international cooperation, which was extremely successful. Kazakhstan had a good experience with international cooperation with major companies, from TCO through Kashagan and most recently with Block N. Mann also pointed out that Russia uses the model of international cooperation. Despite the fact that Russia has a "difficult" relationship with the companies, it does not back off from international cooperation.

¶13. (C) Gray said that Western companies would want a share of the profits, but most of the ownership would lie with Turkmenistan. Twenty years ago foreign companies had 100% control of resources, but that is unrealistic today. States own their resources. The companies would invest. Share of profits/ownership must be established during negotiations. Russia would just take gas out and not invest. And it is

ASHGABAT 00001240 004 OF 005

riskier to ship through Russia than through other countries. They also said that Turkmenistan or other countries should not have to take on the security of pipelines. The oil companies themselves would best be able to provide security for pipelines, because private companies will consider risk. The marketplace can help with the pipeline security issue. Large international companies have a lot of experience and strong interest when their money is on the line. Using the example of Colombia, which still turned a profit despite 1000 attacks/year on the pipeline, Mann said the issue is not how many attacks, but how quickly the pipeline can be repaired. They worked so fast, they preserved the value of their investment. (COMMENT: This line of argument was totally lost on Berdimuhamedov. END COMMENT.)

¶14. (C) Regarding the BTC pipeline, Mann said that the USG worked closely but quietly with BP and the host governments to develop security assessments. BP coordinated all security arrangements and helped to develop security forces to defend the pipeline in Azerbaijan, Georgia, and Turkey. He also noted that while each state is responsible for the pipelines that run through it, BP coordinated the security for BTC and economic risks influenced this.

¶15. (C) Gray asked which experts does Turkmenistan turn to for advice or neutral independent analysis? He stressed again that it is best to have independent expert advice from outside. Even major businessmen would not take a step without a second opinion. Gray said the United States wants Turkmenistan to have the largest possible opportunity for diversification. The world economy would benefit.

¶16. (C) Berdimuhamedov said Turkmenistan is not against international cooperation. Turkmenistan would invite an American company and would be willing to work with a Shell or Chevron or another American company on a trans-Caspian pipeline. Turkmenistan will work with any company. Berdimuhamedov said Turkmenistan does not oppose working with American companies, if their proposals meet the country's needs, but they must work according to our conditions. And if they do meet Turkmenistan's needs, Deputy Chairman Tagiyev and his team will consider their proposals. "There must always be compromises. Since God has blessed us with riches, we will share them in a brotherly way."

¶17. (C) Even though the United States would not support it, Berdimuhamedov said, Turkmenistan could send gas through Iran to Turkey and on to Europe. Turkey is ready to use the gas. Gas could go either through Iran or Russia. He said when Russia balked at paying the Turkmen's price, he warned them

that their pipeline would be free of gas and Turkmenistan would negotiate directly with Germany or other European countries and send it directly to them. Turkmenistan would pay the transit and rent and keep the rest of the money. He noted that 85-90% of the gas Russia ships to Europe is Turkmen gas.

¶18. (C) COMMENT: Berdimuhamedov no doubt hoped that Gray and Mann would convey his displeasure to the Azeris and promote his delimitation proposal. Nevertheless, we do not believe that his unhappiness is only posturing. He has shared his anger with U.S. and other Western officials many times before. We believe he really is disturbed by the incidents in the Caspian and the lack of positive Azerbaijani response to the Turkmen proposal. The national preference of limiting Western majors to providing equipment, being service providers, or doing gas processing is short-sighted. Turkmenistan needs the expertise and technology those Western companies can bring to extract the sea of gas the country is sitting on onshore. It is the only way Turkmenistan can reach its production goals. His remarks as well underscore

ASHGABAT 00001240 005 OF 005

the profound provinciality of his outlook, as well as the dearth of his understanding of his own energy sector. We should not take Berdimuhamedov's proud words as the final word on the subject, not least before Chevron commences detailed negotiations to which it has been invited by the Turkmenistan government. And it underscores the powerful need for outreach to Berdimuhamedov and the need to piece the Niyazov-inspired isolation. END COMMENT.

¶19. (U) U.S. Coordinator for Eurasian Energy Affairs Mann has cleared this cable.
CURRAN